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INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
RULSDMK/DEPT OF TRANSPORTATION WASHDC IMMEDIATE
RUCPDOG/USDOC WASHDC IMMEDIATE
RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS IMMEDIATE
RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 5930
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SINGAPORE AND TOKYO FOR FAA
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E.O. 12958: N/A
TAGS: [EAIR](#) [ETRD](#) [BEXP](#) [RP](#)
SUBJECT: PHILIPPINE AIRLINES BUYS BOEINGS

REF: A) MANILA 1580 B) MANILA 1135 C) 05 MANILA 5937
D) 05 MANILA 5276

SENSITIVE BUT UNCLASSIFIED - PROTECT ACCORDINGLY

1. (SBU) Summary. Philippine Airlines (PAL) announced on December 7 its purchase of two Boeing 777-ER aircraft, with the option to buy two additional planes, and its lease of two more aircraft. The planes will allow PAL to increase its flights to the United States, including planned new destinations Seattle and San Diego. Boeing Country Sales Manager Ray Lau gave substantial credit to the Ambassador for advocating the sale. Boeing plans to make a generous contribution to typhoon relief efforts. End Summary.

2. (U) PAL executives signed a firm contract with Boeing in late October to purchase two wide body Boeing 777-ER aircraft with the option to purchase two additional planes. PAL executives also signed a Letter of Intent to lease two 777-ER aircraft from GE Commercial Aviation Services. The value of each plane is about \$250 million; the total estimated value of the deal is \$1.5 billion. PAL President Jaime Bautista expects delivery to begin in 2009. Boeing and PAL executives shared this information with Embassy some weeks ago, but requested that it not be reported until approval was received from creditors.

3. (U) Bautista told econoff that the planes will accommodate PAL's expansion plans to destinations outside the region, including the US. He said PAL will likely expand its service to the United States to include new routes to Seattle and San Diego. PAL must decide on the optional planes by 2008, two years before their expected delivery date in 2010. Bautista said the decision depends on demand for these new markets but he expected the planes would be needed to cover additional flights to the U.S. West Coast or possibly Europe.

4. (U) Bautista said PAL would finance the planes through US EXIM Bank or commercial loans. PAL has recently seen a turnaround in its profitability with its 2005 profits the highest in 10 years. PAL posted a \$3.5 million profit for the third quarter of 2006, reversing a loss of \$4.5 million in the same quarter last year. Net profit increased by 12 percent in the first half of 2006, from \$23 million in 2005 to \$25.8 million. PAL struggled financially in the 1990s, posting six years of net loss, and filed a financial rehabilitation plan in 1998.

¶5. (SBU) Boeing Country Sales Manager Ray Lau told econoff on December 8 that PAL's contract is final and air-tight. The negotiations stalled earlier in the year because PAL was seeking reimbursement of the \$100 million it forfeited to Boeing when the company refused to take delivery of a contracted Boeing 747 ten years ago (ref D). Lau said Boeing resolved the disagreement by reimbursing PAL for a large portion of its deposit.

¶6. (U) Lau is very optimistic PAL will consummate the purchase of the additional two Boeing planes. He said once the company begins flying to more long-distance destinations, it will realize the financial advantage of adding 777s to its fleet.

¶7. (SBU) Lau gave substantial credit for the sale of 777s to the Ambassador. Post has persistently advocated for the sale of Boeing planes, including in frequent meetings with PAL officers and has regularly coordinated strategy with visiting Boeing representatives.

¶8. (SBU) Lau said he will join PAL President Jaime Bautista in Legaspi City on December 9-10 to see the communities destroyed by the recent typhoon. PAL is asking its employees, passengers, and even suppliers to donate relief funds. Although Boeing's lawyers discouraged Lau from contributing company funds directly to the charitable foundations of the airline and its Chairman, Lau said Boeing will give a generous contribution to the Philippine National Red Cross.

KENNEY